

CANDIDATE
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CENTRE
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CANDIDATE
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ACCOUNTING

9706/23

Paper 2 Structured Questions

October/November 2016

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use an HB pencil for rough working.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

All accounting statements are to be presented in good style.

International accounting terms and formats should be used as appropriate.

Workings must be shown.

You may use a calculator.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **19** printed pages and **1** blank page.

- 1 Maneesh has not maintained a full set of accounting records for the year ended 31 December 2015. The following information has been provided:

Assets and liabilities at 1 January 2015

| | Assets | Liabilities |
|--------------------------------------|----------------|----------------|
| | \$ | \$ |
| Non-current assets at net book value | 83 400 | |
| Inventory | 18 500 | |
| Trade receivables | 22 460 | |
| Prepaid rent | 1 900 | |
| Cash in hand | 180 | |
| Trade payables | | 12 770 |
| Accrued general expenses | | 1 320 |
| Bank overdraft | | 5 640 |
| Balance at 1 January 2015 | <u>126 440</u> | <u>106 710</u> |
| | | <u>126 440</u> |

Summary bank account for the year ended 31 December 2015

| | \$ | | \$ |
|--------------------------------|----------------|------------------------------|----------------|
| Receipts from credit customers | 176 750 | Balance at 1 January 2015 | 5 640 |
| Cash sales banked | 7 450 | Payments to credit suppliers | 138 132 |
| Balance at 31 December 2015 | 17 272 | Non-current assets | 5 200 |
| | | Drawings | 14 120 |
| | | General expenses | 11 280 |
| | | Rent | <u>27 100</u> |
| | <u>201 472</u> | Balance at 1 January 2016 | <u>201 472</u> |
| | | | 17 272 |

Additional information

- 1 Maneesh makes both cash and credit sales. All sales were made at 40% gross margin.
- 2 Credit sales for the year totalled \$184 190.
- 3 Credit purchases for the year totalled \$136 422. There were no cash purchases.
- 4 The business maintains a cash float of \$180.
- 5 Maneesh withdrew \$20 per week from cash sales for drawings, before banking the rest.
- 6 Maneesh depreciates his non-current assets at 20% per annum using the reducing balance method.
- 7 The rent charge for the year was \$24 600.
- 8 The general expenses charge for the year was \$14 160.
- 9 Irrecoverable debts of \$900 should be written off at 31 December 2015.

Additional information

Maneesh is concerned that the bank overdraft has increased substantially during the year ended 31 December 2015.

REQUIRED

(c) Suggest to Maneesh **four** possible reasons for the increase in the bank overdraft.

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(e) State **two** items which may be included in a partnership agreement (other than the share of profit)

which will affect the appropriation account

1

2 [2]

which will **not** affect the appropriation account.

1

2 [2]

[Total: 30]

Question 2 is on the next page.

- 2 Alice, Eve and Jean are in partnership sharing profits and losses in the ratio 5 : 3 : 2 respectively. The partnership statement of financial position at 30 June 2016 was as follows:

| | | |
|--------------------------------------|----------------|--------|
| | \$ | |
| Non-current assets at net book value | 162 000 | |
| Current assets | | |
| Inventory | 17 208 | |
| Trade receivables | <u>11 376</u> | |
| | <u>28 584</u> | |
| Total assets | <u>190 584</u> | |
| Capital accounts | | |
| Alice | 76 500 | |
| Eve | 63 000 | |
| Jean | <u>27 000</u> | |
| | <u>166 500</u> | |
| Current accounts | | |
| Alice | 14 112 | Debit |
| Eve | 8 226 | Credit |
| Jean | <u>18 982</u> | Credit |
| | <u>13 096</u> | |
| Current liabilities | | |
| Trade payables | 8 532 | |
| Bank overdraft | <u>2 456</u> | |
| | <u>10 988</u> | |
| Total capital and liabilities | <u>190 584</u> | |

Additional information

On 1 July 2016

- 1 Alice retired from the partnership.
- 2 Monies due to Alice on her retirement were paid to her from the partnership bank account.
- 3 Non-current assets were revalued at 20% lower than the net book value.
- 4 Inventory had a net realisable value of \$12 908.
- 5 An amount of \$1990 was written off as an irrecoverable debt.
- 6 Goodwill was valued at \$20 250 and was not to remain in the books of account.
- 7 Eve and Jean continued in partnership sharing profits and losses in the ratio 3:2 respectively.

REQUIRED

- (a) (i) State what is meant by net realisable value.

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(c) Assess the impact of Alice's retirement on the partnership's statement of financial position.

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[Total: 15]

Question 3 is on the next page.

- 4 Rajesh is a manufacturer with a trading year end of 31 December. He currently uses absorption costing. The business operates two production cost centres and two service cost centres. Details of these cost centres and the budgeted overhead costs for the whole business for the year ended 31 December 2015 are as follows:

| Overhead | \$ | Basis of apportionment |
|-----------------------|--------|----------------------------|
| Depreciation | 8 750 | Non-current assets at cost |
| Machinery maintenance | 27 000 | Machine hours |
| Power | 15 370 | Kilowatt hours |
| Rent of premises | 63 510 | Floor area |

The following information is also available:

| | Production cost centres | | Service cost centres | |
|--------------------------------|-------------------------|----------|----------------------|---------|
| | Machining | Assembly | Stores | Canteen |
| Floor area (square metres) | 750 | 500 | 150 | 50 |
| Kilowatt hours | 3 750 | 2 500 | 750 | 250 |
| Non-current asset at cost (\$) | 90 000 | 30 000 | 12 000 | 8 000 |
| Stores requisitions | 150 | 75 | - | - |
| Staff | 20 | 30 | 3 | - |
| Direct labour hours | 2 300 | 13 900 | - | - |
| Machine hours | 14 100 | 2 650 | - | - |

REQUIRED

- (a) Apportion the overhead costs to the four cost centres and re-apportion the service cost centres costs to production cost centres using a suitable basis.

| | Total | Production cost centres | | Service cost centres | |
|-----------------------------|-------|-------------------------|----------|----------------------|---------|
| | | Machining | Assembly | Stores | Canteen |
| | \$ | \$ | \$ | \$ | \$ |
| Depreciation | | | | | |
| Machinery maintenance | | | | | |
| Power | | | | | |
| Rent of premises | | | | | |
| Re-apportionment of canteen | | | | | |
| Re-apportionment of stores | | | | | |
| Total overhead cost | | | | | |

[8]

(b) Calculate suitable overhead absorption rates for **each** production cost centre correct to **two** decimal places.

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Additional information

The following budgeted information is also available:

| | Product A | Product B |
|-------------------------|-----------|-----------|
| Number of units | 9400 | 6950 |
| Direct costs per unit | \$5.75 | \$8.25 |
| Machine hours per unit | 1.5 | 0.3 |
| Assembly hours per unit | 0.5 | 2.0 |

REQUIRED

(c) Calculate the total cost per unit of Product A and Product B.

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Additional information

The actual results for the year were as follows:

| | Machining | Assembly |
|---------------------|-----------|----------|
| Factory overheads | \$76 750 | \$45 675 |
| Direct labour hours | 2 560 | 12 650 |
| Machine hours | 16 210 | 2 490 |

REQUIRED

(d) Calculate the over absorption or under absorption of overheads for each production cost centre.

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(e) State what is meant by allocation.

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(f) State what is meant by overhead costs.

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(g) Explain why overhead costs are re-apportioned from service cost centres.

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Additional information

Rajesh has been advised to change to a marginal costing system.

REQUIRED

(h) Advise Rajesh whether or not he should change. Justify your answer.

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[Total: 30]

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